

Weekly Contributions
Latin America Branch, ONE, CIA
25 October 1949

This week D/LA finds the report on the increase in anti-democratic control measures in Argentina of particular interest (p. 3).

CURRENT DEVELOPMENTS

CENTRAL DIVISION: Colombia's Liberal Party is expected to try to break the Communist control of the Colombian Workers' Confederation (p. 2). Venezuela's petroleum mission to the Middle East is not likely to succeed (p. 2).

SOUTHERN DIVISION: In Argentina, the administration has extended its use of anti-democratic measures (p. 3). In Paraguay, political unrest now centers around attempts to remove the Army's chief of staff from office (p. 4).

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1. COLOMBIA: The Liberal Party will probably try to gain control of the Colombian Workers' Confederation (CWC, a CTAL affiliate) at the confederation's 10th national congress meeting 28 October in Bogota. Although the Communist membership of the confederation is extremely small, that party has, to date, succeeded in dominating this organization mainly through its greater cohesiveness and skill in parliamentary procedure. The Communists have been aided in this also by the fact that the Liberals are singularly lacking in good labor leaders, and that at least some of the left-wing Liberals have supported the Communists in the confederation. Now, however, in view of the growing anti-Communist feeling in Colombia, continued Communist domination of the Liberal-backed confederation is a serious political handicap to the Liberals in the coming presidential election. The Liberal Party recently made its first official anti-Communist pronouncement and caused no split in the party. It is therefore in a good position to make a greater effort than ever before to dislodge the Communists from all directive posts in the confederation, and has a fair chance of success.
2. VENEZUELA: Petroleum Mission to Middle East Not Likely to Succeed
The Venezuelan Ministry of Development has sent (21 Sep 49) a three-man mission to the Middle East with the stated purpose of exchanging views regarding production and marketing of petroleum and working conditions in the oil industry. The mission plans to spend five or six weeks in Iran, Iraq, Egypt, Saudi Arabia, and Kuwait. It has conferred already with government officials in Iran, but has been refused visas to Saudi Arabia.
The Venezuelan Government is undoubtedly disturbed by the possibility of increasingly serious competition (especially in sterling-area markets) from lower-cost Middle East oil, and, reluctant to take any steps to reduce production costs in Venezuela (See D/LA Wkly 13 Sep 49), that government apparently is seeking other methods of meeting the threat of competition. US Embassy Caracas believes, and D/LA agrees, that the real object of the present mission, therefore, is to persuade the Middle East governments either to increase tax levels and social legislation in the petroleum industry (thereby raising production costs) or to "stabilize" production.
D/LA also believes that these countries will not welcome Venezuelan advice concerning their petroleum policies, and that any measures tending to increase production costs which might be adopted would be the result, not of persuasion by the Venezuelan mission, but of independent decisions of the governments concerned. The refusal of the Saudi Arabian government to receive the mission is indicative of possible hostility to such foreign meddling.

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3. ARGENTINA: Concern for Stability Leads to Undemocratic Practices
Contrary to the favorable indications of a few weeks ago (D/LA Wkly 27 Sep 49), it now appears that apprehension for the future is leading the Perón administration to resort more extensively to anti-democratic methods than previously seemed probable.

This apprehension has led to recent politically defensive measures contrary to the spirit of democracy such as a "Gag Law" providing imprisonment for offenders against the dignity of public officials and a regulation which makes the formation or continuance of political parties subject to the discretion of the Perón-dominated federal judiciary. Further, the government has increased its surveillance of disaffected elements in the military establishment as well as in labor unions; has strengthened the Casa Rosada Secret Police and the Federal Police; and has appointed extreme nationalists to some key government posts --- evidently as an attempt to appease the right-wing Army faction. It is significant also that the government has deliberately tried to conceal the seriousness of its economic problems from the public.

Underlying this uneasy situation are the persistence of maladjustments in the Argentine economy and the administration's fear that economic reform cannot be implemented in time to avert labor disorder and a possible rightist subversive reaction. Although important measures toward a more sound economic policy continue to be pushed by the government --- notably efforts to expand trade, particularly with the US, and a shift in emphasis from industrialization to agricultural development --- inflationary pressures persist, and labor is expected to become increasingly demanding. Moreover, the government's steadily diminishing financial resources restrict its ability to continue to spend, as it has in the past, large sums for special labor benefits. The only alternative to repudiation of these benefits appears to be monetary expansion which would stimulate the wage-price spiral. Finally, the administration continues to be plagued with the difficult problem of restoring Argentine production costs on many items to internationally competitive levels.

D/LA estimates that the success or failure of the Perón government's efforts toward economic reform during the next six months will be the critical factor in the government's stability, and that that government will continue to resort to such undemocratic measures as it may consider necessary to defend its domestic position.

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4. PARAGUAY: The unrest which has been chronic in Paraguay since 1947 now centers around Army Chief of Staff Diaz de Vivar whose opponents are attempting to remove him from office. Lines for a showdown have not been drawn as yet, but Major General Caballero Alvarez appears to be the principal aspirant for the job. Although Diaz de Vivar has increased his strength within the Army during recent months, a combination of his rivals possibly could shift him from his position if sufficient support were received from the civilian government. As the Chaves government would be strengthened by the removal of a too-independent Army leader and potential strong man -- as Diaz de Vivar appears to be -- it might very well offer this support to his rivals.

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The Current Situation in Ecuador

(Summary -- The government continues to be stable despite some opposition to the president. The economic situation continues to be unsatisfactory. There has been an increasing number of reports on disaffection in the army. The Communist party continues to lack unity, effective leadership, and prestige. No serious problems at present disturb Ecuador's international relations.

-- The current Ecuadoran situation contains no elements which cause or immediately portend noticeable change in the status of US security interests in the area.)

Political

Although the political pot is again beginning to simmer, there is also evidence that the Plaza administration, having gained strength since the earthquake, is at this time less vulnerable than was the case immediately prior to that catastrophe. The political truce, which was an immediate effect of the earthquake catastrophe last August, appears to be drawing to a close as oppositionist activity is again reported to be on the increase. Although the Communists continue their policy of watchful waiting, the Socialist and Liberal parties have resumed active opposition to the Plaza administration. Officials in the Ministry of Defense, reportedly are again expressing doubts concerning the loyalty of the personnel of several army units stationed in Quito and of the mechanized group at the San Antonio base near Guayaquil.

The position of the government was considerably strengthened, however, by the unexpectedly generous aid from abroad during and since the earthquake. Apparently this spontaneous international assistance, coming at a time when most Ecuadorans still considered themselves isolated by the Rio Protocol, has been attributed by a large proportion of the population to the personal prestige and popularity of President Plaza. Whether he can continue to capitalize upon this prestige depends upon his success in acquiring and administering adequate funds for reconstruction. Ineptness in this plays admirably into the hands of leftist agitators.

A second favorable development of the past weeks has been the improvement of Plaza's position with relation to congress. On 17 August, the government scored a victory when congress passed a vote of censure (62-25) against the congressionally-selected Comptroller-General Ruperto Alarcon Falconi which resulted in the removal of an incompetent but nonetheless prominent Conservative. On 16 September, the legislators further demonstrated their new regard for Plaza by voting down a bill to grant amnesty to Col. Carlos Mancheno and thirteen other conspirators.

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In recent weeks little information has been received concerning the reestablishment of the Movimiento Cívico Democrático Nacional which offers promise of further strengthening Plaza's position (see D/LA Wkly, 30 Aug 49). It appears that the MCDN still enjoys Conservative support on fundamental issues. There is still an important mass of dissident Liberals and Socialists generally disposed to cooperate at a price with the government and whose support could be won by skillful manipulation. The extent to which the MCDN can be effectively revived will be a most important factor in the government's prospects for stability.

Economic

The normal seasonal increase of food exports has not materialized as yet this year. World prices for rice and cocoa, the two major export commodities, are below what Ecuador can really afford to accept. Reconstruction costs resulting from the earthquake disaster come at a time when Ecuador's general economy cannot afford to assume this additional burden without sizable loans from abroad.

If good arrangements could be made to finance the reconstruction of the area devastated by the earthquake, it would do much to alleviate the unemployment problem, encourage the local production of materials, and stimulate the importation of necessary materials and equipment not obtainable locally. So far, however, there has been little to indicate that government planning has gotten beyond the relief stage, and, until well-integrated reconstruction plans are formulated, there is small hope for getting the necessary loans, either at home or abroad. Credit continues tight and the foreign exchange deficit is reported to be growing progressively greater. Prospects for significant income from export of food products appear dim because of prevailing world prices.

The latest estimate of the cost of reconstruction of industry, housing, and utilities in the area devastated by the earthquake in August places the cost at \$80,000,000 of which 36,000,000 would be used for the importation of necessary materials and the remainder would go for national materials and construction work. The method of financing the reconstruction has not been completely worked out, although the government has announced that it calculates that about \$4,000,000 annually of Ecuadoran capital can be used for this work without seriously endangering the economy. A loan from the Export-Import Bank of Washington for the dollar needs is under study.

The Ecuadoran government has recently taken several steps to stimulate foreign trade. A commercial convention and payments agreement, signed with Chile on 4 August 1949, abolishes customs duties on a number of specified commodities moving between the two countries. This convention includes

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a payments agreement (similar to that recently signed with Colombia) to facilitate trade by maintaining current accounts of dollar balances in the central banks of the two countries with six-months liquidation periods. Immediate payment in dollars is to be made if either party's debt exceeds US \$250,000. In the past, commerce between Chile and Ecuador has been of very little importance to either country. Although this convention may result in some expansion of trade, the opportunities for profitable exchange between the two countries are such that no really significant increase can be expected.

To stimulate banana exports, the government has announced that merchandise imported in ships having refrigerator space equal to 75% of their cargo capacity and which come to Ecuador to carry bananas outbound shall be liable to only 3.5% ad valorem consular fees instead of the usual 7%. This measure benefits for the most part companies regularly engaged in the banana trade, and will possibly encourage other shipping companies to enter the trade.

Of Ecuador's three principal crops — rice, cocoa, and coffee, which together contribute over 80% of the country's foreign exchange — the outlook is favorable only for coffee, the least important of these three crops. Coffee exporters are optimistic as there are no signs of weakening in world prices. So far this year Italy is surpassing the US in purchases of Ecuadoran coffee. Coffee production is running about normal for this year. Although cocoa bean exports are approximately 50% more by volume than they were in 1948, they are off 18% by value.

The first major export movement of the 1949 rice crop took place during the last few months. A sale of 20,000 metric tons was made to the Philippines for September delivery at US \$7,544 per cwt. This sale will bring in approximately three million dollars, alleviating somewhat the unusually large 1949 dollar deficit which by 24 August was over eleven million dollars as compared with slightly over three millions at the end of August, 1948. The prospects for advantageous disposal of this year's crop generally, however, continue poor because of the high cost of Ecuadoran rice on the world market.

In view of the small world demand for Ecuadoran products at prices Ecuador can afford to accept and the domestic economic dislocations resulting from the impact of the earthquake upon an already uncertain economy, little improvement can be expected for some time to come.

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Military

Reports of growing disaffection in the army are again on the increase. One report states that many army officers, especially those of the Mechanized Group stationed at San Antonio near Guayaquil are plotting with Carlos Guevara Moreno, the perennial revolutionist in Guayaquil. Much speculation also centers around the Garcia Moreno Prison where Col. Carlos Mancheno is imprisoned. Capt. Luis Rueda, head of the Communist front organization "Los Comandos," is a fellow prisoner. Nestor V. Villacis, an ex-soldier and confidant of Rueda, frequently visits the latter and acts as his "leg-man" on the outside. D/LA continues in its belief, however, that such reports do not reflect any seriously widespread disaffection, and estimates that it is unlikely that serious trouble will break out in the immediate future.

The government is experimenting with a new type of training as a possible substitute for conscription. On the basis of an old law (circa. 1935) which has never before been put into effect, there was initiated in Guayas Province a basic training course (4 hours each Sunday for 24 consecutive weeks) for all male citizens born in 1929. Satisfactory performance in the course relieves such trainees of liability for service as a conscript. Similar training programs are to be established throughout the country. The Minister of Defense reportedly favors this type of training over conscription as more men can be trained more cheaply.

The military capabilities of the Ecuadoran army continue at their customary low level.

Subversive

Ecuador's ineffective Communist Party has not improved its status in recent months; it still lacks unity, effective leadership, and prestige, and is avoiding acts which might bring government repression.

The Sixth National Congress of the party (held in August) was characterized by bitter personal arguments between the various party leaders and the success of this congress is reported to have been considerably less than that of 1946. Because of rivalries having a schismatic potential, changes in the party organization were authorized. Regional committees were abolished because they had assumed too much independent power, and their duties were assigned to the provincial committees. This attempt at clarification of the chain of command will not produce benefits, however, until the present competition for leadership ceases

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and a widely-acceptable group of leaders emerges. The prospects for this are at the moment not very good. The Communists evidently recognize the present low level of the party's prestige. They continue their policy of avoiding to give the appearance of participating in any plotting against the government. By force of current political circumstances, the Communists could play only a minor role in any revolt; therefore, they appear to be biding their time until conditions are such that there will be greater certainty of an opportunity for unequivocal leadership.

International

In its foreign policy generally the government continues its friendly attitude toward the US. No serious problems at present disturb the international relations of Ecuador.

Domestic, political, and economic problems, particularly those growing out of the earthquake, so occupy the government that the fear of Peruvian aggression has temporarily subsided. A resurgence of fear and preoccupation can be expected in November, however, if the Peruvian army carries out at that time its reported plans for the Eighth Light Division to hold annual maneuvers in combination with the air force along the Chira River, an area within 80 kilometers of the Ecuadoran border.

D/LA estimates that Ecuador will be elected non-permanent member of the Security Council in September. The withdrawal of Brazil from the race removes the last serious competitor.

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The Current Situation in Bolivia

(Summary — The government has lost political strength despite its military success in the August revolt. The nation's economic difficulties have been increased by the effects of the revolt and of European currency devaluation. The Army's loyalty constitutes a favorable factor, although it is likely that the military will gain in political influence. The principal subversive groups (MNR and PIR), though weaker than in the past, continue to be threats to the present government. Charges and countercharges regarding alleged Argentine participation in the Bolivian revolt have embittered relations between Bolivia and Argentina and also between Argentina and its more "democratic" South-American neighbors.

-- US security interests have not been significantly affected by recent Bolivian events. Generally unfavorable factors, however, include the continued weakness of the Bolivian government, its increasing economic difficulties, and the fact that controversy regarding foreign participation in the revolt has served to reduce the degree of Hemisphere solidarity.)

Political

The government has lost political strength since the opening of Congress (6 August) despite its military success in suppressing the MNR-led revolt that began in the same month. This loss has resulted from division within the government party (PUSR) and failure of the administration to gain the support of other democratic parties. The division within PUSR is so violent that one sector of the party wishes to eject Urriolagoitia from office and has also opposed the return of President Hertzog. (See D/LA Wkly for 11 Oct 49.) If an attempt is made to force the Acting President from power, it will probably meet with Army opposition, thus making the rift among the government's adherents all the more serious. The administration's inability to consolidate and add to its political support, at a time when popular unrest is almost certain to increase because of deteriorating economic conditions, could very well be expected to strengthen the hand of the MNR which, despite its recent setback, is reportedly planning another revolutionary attempt for late 1949.

Economic

Bolivia's economic difficulties, already serious, have been intensified by the effects of two recent events: the MNR revolt and the devaluation of European currencies. The revolt caused the government to expend so much money that it has had to resort to forced loans. The

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authorized amount of such loans is nearly twelve million dollars (equal to a quarter of the previously established budget for the year) and will constitute a serious burden on the national economy even if the entire amount is not collected. The devaluation of the English pound allowed sterling area tin producers to readjust their prices -- upward in terms of pounds, downward in US currency -- with the result that the US lowered its purchasing price for Bolivian tin from \$1.03 to .96 a pound. As tin provides seven-tenths of the value of Bolivian exports, this relatively small price cut will entail a loss to Bolivia of approximately 1.7 million dollars in the remainder of 1949 and cause serious repercussions in the foreign exchange budget, which was already out of balance. Economically, the long-term prospects for Bolivian tin are exceedingly poor, as much of Bolivia's production is marginal and even more severe declines in tin prices may be expected once present stockpiling demands are met. The only favorable factor is US strategic interest in Bolivian tin, which has maintained production to date and may cause purchasing from Bolivia to be continued even though cheaper tin is available elsewhere.

The Bolivian government is making strenuous efforts to meet the impending economic crisis, of which it is well aware. It has expressed its desire to obtain an economic mission, either from the US or the UN, to make a survey of its economy. Decrees have been issued to encourage wheat production and the production of metals other than tin. Efforts have been made to combat the black market in bolivianos and to establish a more realistic exchange rate. However, Bolivia's economic difficulties are so great and the political opposition to reform so strong that D/LA estimates that, unless unexpected rapid progress is made in the development of alternate forms of production, the Bolivian government will face an increasingly serious economic situation during the next six months.

Military

The Army, by demonstrating its loyalty during the recent revolt, has gained in political influence. During recent disorders, a close relationship was established between Army leaders and Acting President Urriolagoitia, who has confided the government of the more disaffected departments to military prefects. Disloyal officers either fled the country or have been purged subsequently in moves which should increase the degree of cooperation between the Army and the civil establishment. As a reaction to civilian political pressure to remove Urriolagoitia from office, the Army has made it clear that it retains a veto on the naming of any new president and prefers that Urriolagoitia remain. The Army has thus reestablished itself as a major factor in domestic politics.

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The importance of air power in a country lacking other means of transportation was so strikingly illustrated during the revolt that substantial plans to increase the Air Force are now under way. The Air Force, closely associated with the Bolivian National Airline (LAB), was crippled during the revolt principally as a result of treachery on the part of LAB personnel who went over to the rebels with their planes. As a result, the government could not transport its troops by air to reduce remote points like Santa Cruz, which remained in rebel hands until land forces could reach them days, and even weeks, later. The Air Forces are now being reorganized, more planes are to be purchased, and plans are being made to train 70 new pilots at the Military College. The Air Force has clearly demonstrated the importance of its role in domestic disorders, and it is not likely that Bolivians will miss its point of its demonstration.

Subversive

The strongest subversive group in Bolivia is the MNR which is temporarily disorganized after the failure of its second revolutionary attempt within three months. Many of its leaders have fled the country or have been arrested as the government has taken severe repressive measures against them. One such measure is a congressional resolution denying all MNR senators and deputies their seats pending the outcome of their trial for complicity in the revolt. Despite such setbacks, however, the MNR may well show its usual resiliency and attempt another uprising within a relatively short time. Its ability to do so is increased considerably by the escape of some of the insurgents to Argentina with about US\$353,000 in funds taken from branches of the Bolivian Central Bank.

The Communist-led PIR, second in importance as a subversive group, has apparently confined its efforts lately to building up its strength among labor and student groups and to utilizing its congressional representation in order to denounce and obstruct governmental policies. It has not attained enough success in either of these endeavors as yet to add greatly to its subversive potentialities. It is estimated, therefore, that the PIR's ability to subvert the government would depend on its alliance with other groups, which appears unlikely at present because of its failure to join the MNR in the most recent revolt.

International

Although relations between Bolivia and Argentina are technically "friendly," a large sector of the Bolivian public is convinced of Argentine complicity in the MNR revolt despite the vigorous denials made by the Argentine government. A further result of the charges and

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countercharges which arose from the revolt has been an intensification of the ill feeling for Argentina on the part of its more "democratic" neighbors.

Bolivia's relations with the US also remain officially cordial, but the normal friendship of the Bolivian public for the US was subjected to some strain when the US failed to supply the Bolivian government with the military planes it requested during the revolt. That this may be a passing phase is indicated by the renewed consideration by the Chamber of Deputies of a measure providing for service on Bolivia's defaulted dollar debt.

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